

The Effect of Years of Service Award Programs

Quantifying the Return-on-Investment
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***“In today’s world, we
need to prove ROI or else
years of service awards
will be on the cutting
block just like everything
else.”***

– HR executive from
a Fortune 50 company

Most of us can remember receiving a years of service award for our years of service at an organization, or perhaps we can remember observing a colleague receive such recognition. Years of service programs are nearly ubiquitous in large companies. Why do these companies offer years of service award programs? What is the return on investment to such programs? This white paper explores the results of an empirical research study conducted by The Cicero Group in which we attempt to define the return, if any, on a company's investment in a years of service award program.

Through a global primary research study, we found that **years of service award programs are strongly correlated with increased tenure**: Companies offering a years of service award program maintain employees an average of two to three years longer than companies without a program. We also found that effective **years of service award programs improve key employee engagement metrics**: Years of service award programs help companies communicate that they care about employees, and help employees feel they fit in and belong.

The remainder of this white paper further explains the methodology we employed and the detailed results of the research.

Research Methodology

To properly determine the return on investment of a milestone program, we conducted both qualitative and quantitative research across an expansive breadth of demographic groups. Our qualitative research included interviews and focus groups involving over 110 participants across varying geographies, cultures, and ages. We began with 6 domestic focus groups of full-time employees in Phoenix, AZ, Minneapolis, MN, and New York, NY. We then conducted 6 additional international focus groups with full-time employees in Munich, Germany; London, UK; and Tokyo, Japan. We also conducted in-depth interviews with human resource executives and business managers in order to incorporate the employer's perspective throughout the research.

Following the qualitative portion of the study, we administered a quantitative survey to a random sample of over 2,400 employees in 10 countries and seven languages. The survey consisted of an initial "blind" portion where respondents were unaware of the subject matter. In this portion of the survey, we asked about the existence of various employee benefits, including years of service recognition programs, at respondents former and current companies. We then asked about their tenure at both companies in order to determine the correlation between the benefit types and tenure. Later in the survey, we showed a description of a years of service award program experience and followed it with more direct questioning about their perceptions of the impact of years of service award programs. Descriptive statistics describing the qualitative and quantitative samples can be found in Figure 1A and 1B.

Figure 1A: Qualitative sample

Country	n
United States	54
Phoenix, AZ	18
Minneapolis, MN	18
New York, NY	18
Munich, Germany	18
London, England	18
Tokyo, Japan	18

Figure 1B: Quantitative sample

Country	n
North America	900
United States	600
Canada	300
Europe	600
England	200
France	200
Germany	200
Latin America	600
Mexico	300
Brazil	300
Asia	600
Japan	150
China	150
Australia	150
India	150

Executive Summary

Through rigorous analysis of quantitative results we can conclude that years of service award programs fulfill a critical role in company culture and employee engagement, resulting in employees staying longer at companies that offer years of service award programs. Three types of analyses were used to reach this conclusion: correlation, causal mechanisms, and cross-segment analysis. Through correlation analysis we identified a strong connection between years of service award programs and employee tenure. Respondents whose prior companies had a milestone programs reported staying on average 2 years longer than employees at companies without a program. Similarly, if a participant’s current job had a milestone program, they projected staying on average 2.9 years longer than participants in companies without a milestone program. The magnitude of this data provides clear evidence companies who inspire loyalty are the same companies that incorporate a milestone program into their culture.

While quantitative results confirmed a strong *correlation* between years of service award programs and employee tenure, correlation does not explain causation. Understanding causation required a second type of analysis, which looks deeper into the mechanisms that may be driving this relationship. The causal mechanisms, first identified in the qualitative study and confirmed with later quantitative data, were “the degree employees feel their company cares

about its employees,” and “the degree employees feel they fit in and belong.” These two symbols of employee engagement were directly impacted by observing or receiving a years of service recognition, and significantly increased employees’ likelihood to stay with their company. Quantitative results showed that 19% more employees strongly felt that their current company cared about employees if the company had a milestone program. Similarly, 18% more employees strongly felt they fit in and belonged at their current company if the company had a milestone program. The clear alignment of the degree to which employees feel their company cares and the degree they fit in and belong with companies that offer milestone programs suggests a causal mechanism driving the correlation between milestone programs and employee tenure.

The third type of analysis, made possible by the large sample sizes used in the study, was extensive cross-segment analysis of varying demographic groups and cultures. By segmenting qualitative and quantitative participants ages 25-44 from those ages 45-64, we found the impact of milestone programs reached across generations and impacted older and younger employees alike. Employees from both age groups stayed longer at previous companies, and estimated staying longer at their current company, when those companies had a milestone program. Results corresponded in the degree to which both younger and older employees of companies with a milestone program felt their company cared and they fit in and belonged.

In addition to generational analysis, we also analyzed the cultural differences among Canadian, European, Asian, and Latin American participants. We found the correlation between years of service award programs and employee tenure exists in all three regions. Years of service award programs also impact the same causal mechanisms (degree employees feel the company cares, and degree they fit in and belong) in each of the international regions, similar to results in the U.S. In summary, our analysis concludes that regardless of age or culture, years of service award programs increase the likelihood of employee loyalty by improving employee engagement through an atmosphere of belonging and appreciation.

Findings Section 1: Correlations

Do employees at companies with years of service award programs stay longer than employees at companies without? Our effort to determine the impact of years of service award programs on employee tenure began with this simple question. We began by asking participants how long they stayed at previous jobs and how long they estimated staying at their current job, along with whether each job had a milestone program. On average, U.S. employees stayed at previous companies 2 years longer if the company had a milestone program (6.7 years vs. 4.7). Considering that the median employee tenure reported by the Bureau of Labor Statistics is 5.4 years, it is clear that companies with milestone programs are achieving above average employee tenure, while those without are falling behind. Similarly, employees currently in

companies with milestone programs estimate they will stay an average of 2.9 years longer than employees in companies without (11.5 vs. 8.6). More compelling still is that the higher the quality of program, the longer employees estimate they will stay. For example, employees who rate their company's milestone program as an 8-10 on a 0-10 scale estimate they'll stay at their company 2.2 years longer than employees who rated their company's program as a 0-7, and 4.1 years longer than employees without a milestone program. These statistically significant differences provide persuasive evidence that milestone programs are strongly correlated with increased employee tenure. Figures 2A and 2B show these data points graphically.

Figure 2A: Average number of years an employee stayed at their previous company

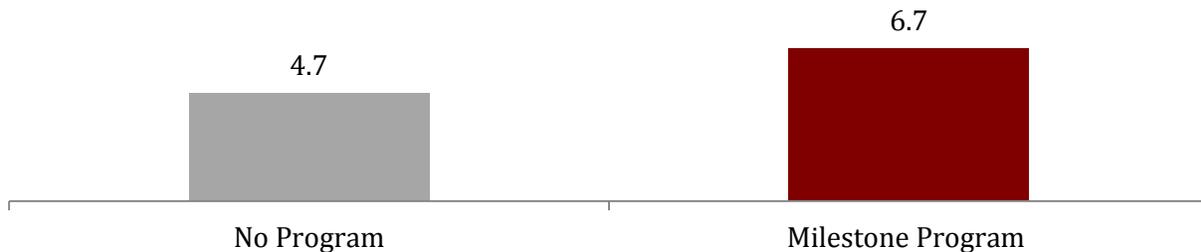
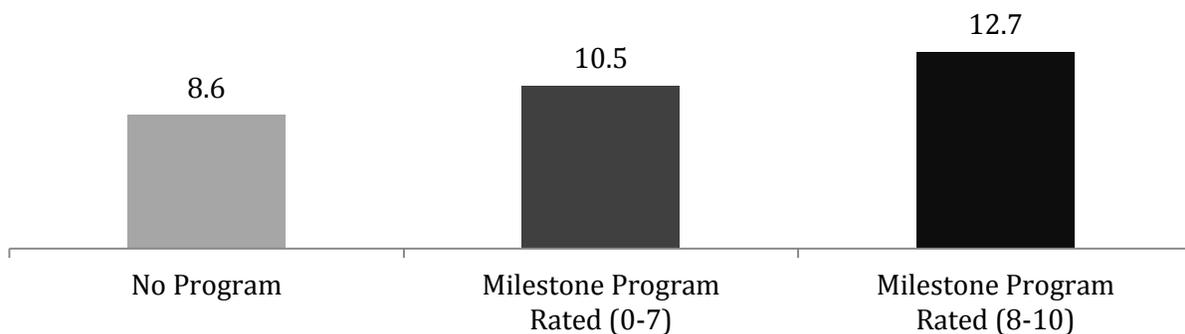


Figure 2B: Average number of years an employee plans to stay with their current company



One concern with correlation analysis, however, is that both variables may be dependent on a third variable which is driving the correlation. In this case, our concern was that companies with milestone programs were also more likely to offer other employee benefits, such as 401k matching, tuition reimbursement, or healthcare benefits. If one of these benefits were driving employees to stay longer, this is the factor that may be causing the observed correlation between years of service award programs and employee tenure. However, after running the same analysis on other benefits that we ran on years of service award programs, we found

years of service award programs to be far more correlated with employee tenure than any other employee benefit. On average, employees with healthcare, 401k matching, or tuition reimbursement benefits at their previous jobs stayed 1.6, 0.6, and 1.0 years longer, respectively, than they did without these benefits, considerably less time than the 2.0 years longer reported by employees with a milestone program. Looking forward, employees with healthcare, 401k matching, or tuition reimbursement benefits at their current jobs estimated staying 2.2, 1.0, and 1.4 more years than they without the benefits (see figures 3A and 3B). Again, this is significantly less than the 2.9 years longer estimated by employees with years of service award programs.

These data discourage the idea that the correlation between years of service award programs and employee tenure is driven by a systematic difference in which companies offering years of service award program also offer other employee benefits. Instead, the results offer convincing evidence that years of service award programs are more highly correlated with employee tenure than any other measured benefit, and therefore likely to not only be correlated, but to have a causal relationship with employees staying longer at their company.

Figure 3A: *Difference in the average number of years an employee plans to stay at their previous company based on whether a given benefit was provided*

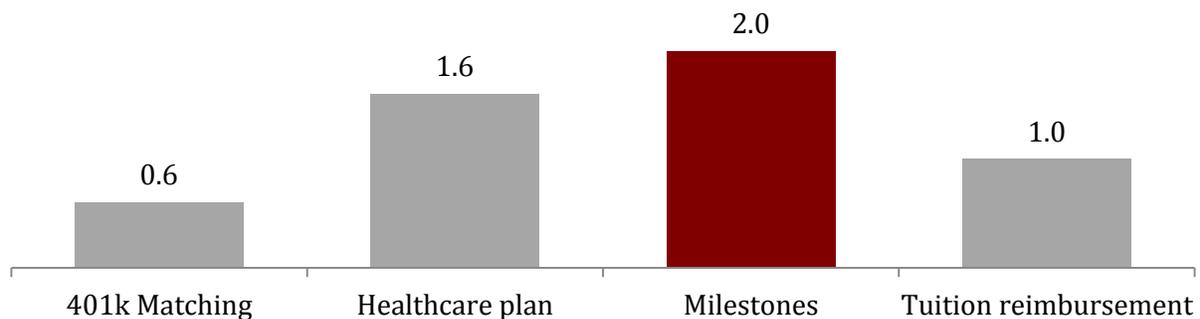
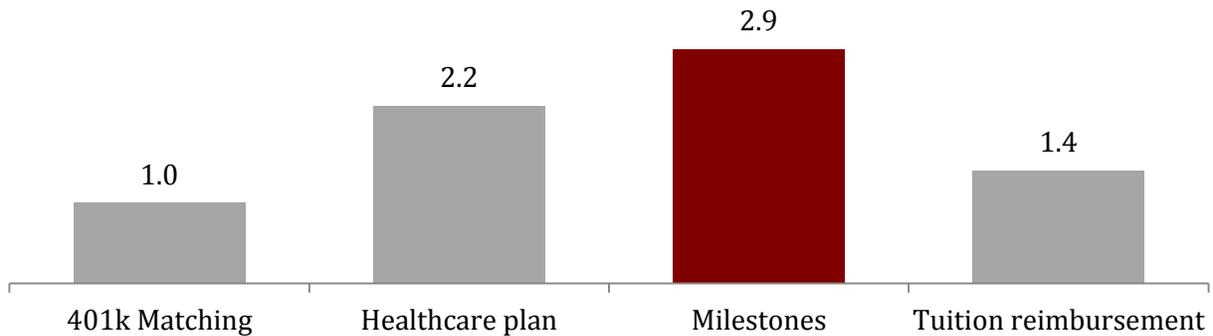


Figure 3B: Difference in the average number of years an employee plans to stay at their current company based on whether a given benefit is provided



Findings Section 2: Causal Mechanisms

While these quantitative results confirm a strong *connection* between years of service award programs and tenure, in order to assume a *causal* relationship, we must look deeper at what psychological drivers keep employees at their companies and how these may relate to a milestone experience.

As part of our qualitative research we explored the causal mechanisms that may explain how years of service award programs impact employee tenure. When asked to respond to a description of a milestone experience, focus group participants repeatedly emphasized the way years of service award programs strengthened relationships, both vertically (between managers and direct reports) and horizontally (among peers). An employee’s vertical relationships are strengthened through the experience of individual recognition and appreciation by the company. Horizontally relationships are created as years of service award programs provide a structure in which coworkers may formally recognize how each fits and belongs in the organization. One participant described this impact in his statement that, “Co-workers come together by expressing appreciation for each other’s contributions and hard work. This forms a tight group and core that strengthens the workplace.” Many other participants described the milestone experience as creating a “family feeling” and “helping you feel accepted and know you can contribute.” Because years of service award programs are not given on the basis of performance, years of service award programs encourage trusting, non-competitive relationships. Participants identified strengthened relationships as the core benefit of years of service award programs, and these relationships are a primary consideration in their decision to remain with a company, thus creating a causal relationship between years of service award programs and loyalty.

Validated quantitatively, this causal mechanism explains the strong milestone/tenure connection previously described. To ensure validity, we tested the intermediary impacts of years of service

award programs in several ways. First, we asked employees to rate their current and previous companies on a 0-10 scale, grading both the degree to which they felt the company cared and the degree they fit in and belonged. The percentage of employees who strongly felt their *previous* company cared about employees (score of 8-10) was 22% higher for companies with milestone programs than companies without. The percentage of employees who felt their *current* company cared about employees was 19% higher in companies with milestone programs. Mirroring this, the percentage who strongly felt they fit in and belonged at their previous company was 19% higher, and current companies ranked 18% higher, when the company had a milestone program in place. See figures 4A and 4B.

Figure 4A: Percentage of employees who strongly feel company cares about employees (top 3 box score of 0-10 scale)

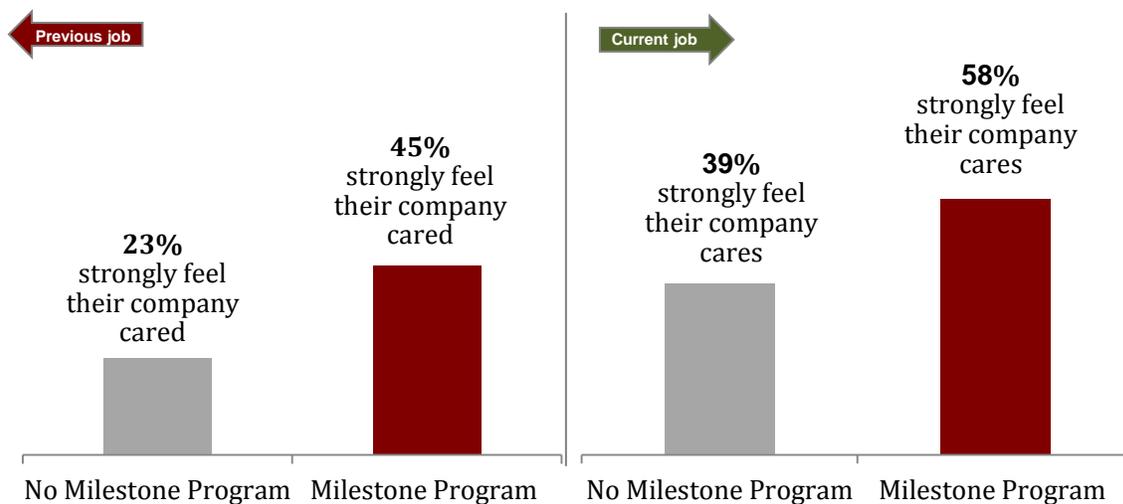
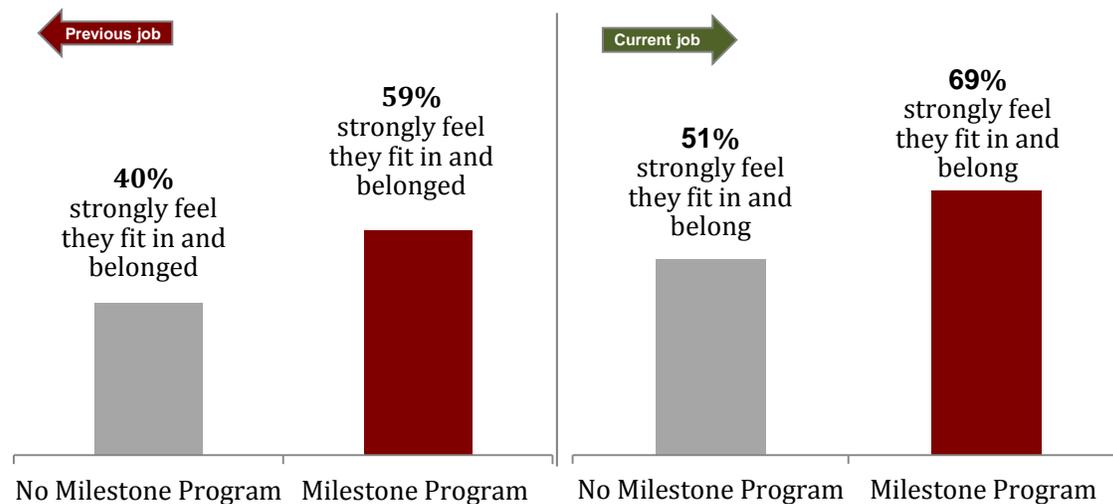


Figure 4B: Percentage of employees who strongly feel they fit in and belong (top 3 box score of 0-10 scale)



While this methodology compares two independent groups, one with years of service award programs and one without, we also wanted to test the impact of years of service award programs on a single group using a quasi-experimental approach. To do so, we compared the same respondents' scores before and after reading a description of a workplace scenario. This was a narrative of a milestone experience in which 10-15 coworkers share brief stories and examples depicting the unique contributions and career accomplishments of the employee and present them with a milestone award. Using the same metrics as before, we found that 19% more employees would strongly feel their company cares about employees (score of 8-10) if they *observed* a milestone award several times a year. Similarly, 10% more employees report they would strongly feel they fit in and belong, if they *experienced* milestone recognition at an important point in their career. These results confirm the causal mechanism suggested in the qualitative study: Years of service award recognition impacts employee tenure by helping employees fit in and belong at their company and feel the company cares about employees.

It is important to note that the impact of milestone awards is distinct from performance-based awards. When asked whether years of service award programs or performance award programs were more likely to show the company cares about employees, 73% of participants selected years of service award programs. Qualitative participants described years of service award programs as being more altruistic and caring than other award types, since years of service award programs are not tied to specific employee output that ultimately benefits the company. For example, when asked which award type creates positive relationships among co-workers, 2/3 of participants chose years of service award programs over other types of employee

recognition. Additionally, since everyone receives years of service awards, they are perceived as fairer than performance awards (69% selected years of service award programs as being fairer) and therefore more likely to be presented publicly. The public nature of years of service award programs has a compounding effect by allowing employees to observe a milestone several times a year. One participant described the impact on observers, saying, “It shows the younger employees, or employees that haven't been with the company too long, that the company does care about them and will recognize them for their effort.”

Findings Section 3: Cross-Segment Analysis (Generational & International Results)

Since years of service award programs are used worldwide among various generations and cultures, we extended our research to test the impact across these segments. Our findings support the theory of universal influence, across both generational and geographical differences. In previous companies the average increase in employee tenure associated with a milestone program is 1.4 for ages 25-44, and 3.0 for ages 45 and older. In current jobs, the average increase in estimated years to stay at companies with milestone programs is 3.9 for 25-44 year olds and 1.6 for employees 45 years and older – all statistically significant differences. Additionally, years of service award programs were more strongly correlated with employee tenure than any other tested benefit for all ages of employees. We found very little difference between how employees of different age groups responded. Younger employees were just as likely as their older peers to desire a company that cares, and to feel they fit in and belong.

Globally, companies achieving above-average employee loyalty are those with milestone programs. If employees in Canada, Europe, Asia, and Latin America, had a milestone program at their previous company, they stayed on average 2.3, 1.1, 1.0, and 0.7 years longer, respectively. If employees have a milestone program at their current company, they plan to stay on average 2.9, 1.0, 1.0, and 3.4 years longer in Canada, Europe, Asia, and Latin America respectively. In spite of marked cultural differences, the same correlation exists between years of service award programs and employee tenure in the United States. Furthermore, employees report the same causal mechanism of increased perception that their company cares and that they fit in and belong if their company has a milestone program.

Conclusion: The Effect of Years of Service Award Programs

Through global primary qualitative and quantitative research, we conclude that years of service award programs yield a substantial return on investment in terms of extended employee tenure. Increased employee engagement is the primary mechanism through which years of service

award programs improve employee tenure. Years of service award programs improve the degree to which employees experience feelings that the company cares about them (vertical engagement with managers) and that they fit in and belong in the organization (horizontal engagement with peers).

In short, for the price of implementing an effective years of service award program, almost 20% more employees will feel strongly that their company cares about them and that they personally fit in and belong to the organization. And on average, employees who feel positively about these key engagement elements stay 4 years longer at their companies than employees who are not similarly engaged. This “effect” of years of service award programs is observed at about this same magnitude in employees both young and old, and in each major region of the world.

Given the magnitude of the years of service award program effect, years of service programs are likely here to stay.

*If you have questions or would like to comment on this research study, please do not hesitate to reach out to the principal investigator of this research project, **Dr. Trent Kaufman**. He can be reached at the Cicero Group (www.cicerogroup.com; 801-456-6700).*